

Baldwin Public Library
(a component unit of the
City of Birmingham, Michigan)

Financial Report
June 30, 2003

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Independent Auditor's Report

To the Board of Directors
Baldwin Public Library

We have audited the accompanying basic financial statements of the Baldwin Public Library (a component unit of the City of Birmingham, Michigan) as of June 30, 2003 and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the Baldwin Public Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Baldwin Public Library as of June 30, 2003 and the changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Library has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* and related statements as of July 1, 2002. The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

Plante & Moran, PLLC

September 12, 2003



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Baldwin Public Library

Balance Sheet - Statement of Net Assets June 30, 2003

	Balance Sheet - Modified Accrual	Adjustments (Note 2)	Statement of Net Assets - Full Accrual	Component Unit - Baldwin Public Library Trust
Assets				
Cash and investments (Note 3)	\$ 1,328,728	\$ -	\$ 1,328,728	\$ 706,171
Due from other governmental units	51,742	-	51,742	-
Capital assets (Note 4)	-	2,837,333	2,837,333	-
Total assets	<u>\$ 1,380,470</u>	2,837,333	4,217,803	706,171
Liabilities				
Accounts payable	\$ 100,885	-	100,885	-
Accrued and other liabilities	124,635	-	124,635	-
Total liabilities	225,520	-	225,520	-
Fund Balances - Unreserved	<u>1,154,950</u>	<u>(1,154,950)</u>		
Total liabilities and fund balance	<u>\$ 1,380,470</u>			
Net Assets				
Invested in capital assets		2,837,333	2,837,333	-
Unrestricted		1,154,950	1,154,950	706,171
Total net assets		<u>\$ 3,992,283</u>	<u>\$ 3,992,283</u>	<u>\$ 706,171</u>

Baldwin Public Library

Statement of Revenue, Expenditures, and Changes in Fund Balance - Statement of Activities Year Ended June 30, 2003

	Revenues and Expenditures, Modified Accrual	Adjustments (Note 2)	Statement of Activities - Full Accrual	Component Unit - Baldwin Public Library Trust
Revenue				
Property tax	\$ 2,293,838	\$ -	\$ 2,293,838	\$ -
Service contracts	547,247	-	547,247	-
State grants	25,532	-	25,532	-
Charges for services	8,341	-	8,341	-
Fines and fees	71,012	-	71,012	-
Penal fines	47,194	-	47,194	-
State inventory tax reimbursement	13,992	-	13,992	-
Investment earnings	27,717	-	27,717	12,067
Contributions	-	-	-	21,820
Miscellaneous	8,220	-	8,220	18,227
Total revenue	3,043,093	-	3,043,093	52,114
Expenditures				
Correspondence	44,939	-	44,939	-
Personnel services	1,700,090	-	1,700,090	-
Supplies and maintenance	38,588	-	38,588	-
Professional and contractual	213,073	-	213,073	-
Communications	13,145	(12,102)	1,043	-
Transportation and parking	23,058	-	23,058	-
Utilities	68,085	-	68,085	-
Videocassettes	24,120	(22,206)	1,914	-
City maintenance services	85,626	-	85,626	-
Public services	16,533	-	16,533	-
Books	234,151	(215,567)	18,584	27,406
Periodicals	51,052	(47,000)	4,052	-
Audiovisual	100,939	(92,928)	8,011	-
Computer service	34,702	(31,948)	2,754	-
Miscellaneous	75,046	-	75,046	51,390
Capital outlay	400,560	(368,766)	31,794	-
Depreciation	-	652,265	652,265	-
Loss on disposal of assets	-	14,897	14,897	-
Total expenditures	3,123,707	(123,355)	3,000,352	78,796
Change in Fund Balance - Net Assets	(80,614)	123,355	42,741	(26,682)
Fund Balance/Net Assets				
Beginning of year	1,235,564	2,713,978	3,949,542	732,853
End of year	<u>\$ 1,154,950</u>	<u>\$ 2,837,333</u>	<u>\$ 3,992,283</u>	<u>\$ 706,171</u>

Baldwin Public Library

Budgetary Comparison Schedule - General Fund Year Ended June 30, 2002

	Prior Year Actual - Modified Accrual	Current Year - Modified Accrual			
		Originally Adopted Budget	Amended Budget	Actual	Variance
Revenue					
Property tax	\$ 2,239,228	\$ 2,280,000	\$ 2,309,040	\$ 2,293,838	\$ (15,202)
Service contracts	519,850	554,640	554,640	547,247	(7,393)
State grants	-	30,000	30,000	25,532	(4,468)
Charges for services	42,244	40,000	-	8,341	8,341
Fines and fees	70,120	65,000	70,000	71,012	1,012
Penal fines	47,678	40,000	40,000	47,194	7,194
Investment earnings	44,852	75,000	75,000	27,717	(47,283)
State inventory tax reimbursement	13,992	12,000	12,000	13,992	1,992
Miscellaneous	11,433	12,500	12,500	8,220	(4,280)
Total revenue	2,989,397	3,109,140	3,103,180	3,043,093	(60,087)
Expenditures					
Personnel services	1,488,223	1,925,184	1,904,704	1,700,090	204,614
Supplies	29,294	37,615	37,615	27,739	9,876
Postage	24,920	31,848	31,848	13,868	17,980
Equipment maintenance	10,172	11,639	11,639	10,849	790
Printing and publishing	23,640	45,000	45,000	31,071	13,929
Employee parking	20,547	25,750	25,750	19,593	6,157
Professional and contractual	275,867	213,375	213,375	298,699	(85,324)
Communications	13,428	14,698	14,698	13,145	1,553
Transportation	3,381	4,635	4,635	3,465	1,170
Utilities	62,539	80,115	80,115	68,085	12,030
DVDs	6,903	-	-	-	-
Videocassettes	16,845	26,471	26,471	24,120	2,351
Public services	4,178	14,429	14,429	16,533	(2,104)
Books	229,199	240,080	240,080	234,151	5,929
Periodicals	40,707	51,924	51,924	51,052	872
Audiovisual	81,496	100,284	100,284	100,939	(655)
Computer service	38,246	40,479	40,479	34,702	5,777
Miscellaneous	48,812	62,016	62,016	75,046	(13,030)
Capital outlay	135,480	424,000	424,000	400,560	23,440
Total expenditures	2,553,877	3,349,542	3,329,062	3,123,707	205,355
Change in Fund Balance - Before other financing uses	435,520	(240,402)	(225,882)	(80,614)	145,268
Other Financing Uses - Operating transfer out	(69,852)	(75,000)	(75,000)	-	75,000
Change in Fund Balance	365,668	(315,402)	(300,882)	(80,614)	220,268
Fund Balance - Beginning of year	869,896	1,235,564	1,235,564	1,235,564	-
Fund Balance - End of year	<u>\$ 1,235,564</u>	<u>\$ 920,162</u>	<u>\$ 934,682</u>	<u>\$ 1,154,950</u>	<u>\$ 220,268</u>

Note I - Summary of Significant Accounting Policies

The accounting policies of the Baldwin Public Library (the "Library") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Library:

Reporting Entity

The Library is governed by a six-member board elected by the citizens of Birmingham, Michigan. It is also reported as a component unit of the City of Birmingham.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. Accordingly, these statements include the activity of the Baldwin Public Library Trust (the "Trust"). The Trust is a legally separate, tax-exempt entity that acts primarily as a fund-raising organization to supplement the resources that are available to the Baldwin Public Library in support of its programs.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Library's General Fund is budgeted and accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Service contract revenue meets the availability criterion and is accrued as of year end.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences are recorded only when payment is due.

Note I - Summary of Significant Accounting Policies (Continued)

In addition to presenting information for the General Fund on the modified accrual basis (as budgeted), the financial statements present information for the Library using the economic resources measurement focus and the accrual basis of accounting. This information is intended to demonstrate the degree to which taxpayers have funded the full cost of services received. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both modified accrual and full accrual columns, to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Library has elected not to follow private sector standards issued after November 30, 1989 for its full accrual presentation.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - The Library considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Investments are recorded at fair value as of June 30, 2003, based on quoted market prices.

Capital Assets - Capital assets are defined by the Library as assets with an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The Library building is owned by the City of Birmingham (the "City"), and is not reported in these statements; the debt related to the building is also reported in the City's financial statements.

Building improvements, furniture and fixtures, equipment, and library books, periodicals, etc. are depreciated using the straight-line method over the following useful lives:

Building improvements	15 years
Furniture and fixtures	10 years
Library books, periodicals, etc.	10 years
Equipment	5 years

Note 1 - Summary of Significant Accounting Policies (Continued)

Compensated Absences (Vacation and Sick Leave) - It is the Library's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation and sick pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Property Taxes - Properties are assessed as of December 31. The related property taxes are billed and become a lien on July 1 of the following year. These taxes are due on September 15 with the final collection date of February 28 before they are added to the county tax rolls. The Library's property tax revenue for the fiscal year ended June 30, 2003 is based on the 2002 levy, which was billed July 1, 2002.

The 2002 taxable value totaled \$1,492,257,488; the Library's millage rate was 1.5376 mills, which resulted in property tax billings of \$2,294,495. The amount recognized as revenue reflects reductions for Board of Review, Michigan Tax Tribunal, and delinquencies, as well as recoveries of prior year delinquencies.

Change in Accounting - During the current year, the Library adopted GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. As a result, these financial statements include a full accrual accounting for all of the Library's activities.

Note 2 - Reconciliation of Government-wide and Fund Financial Statements

As discussed in Note 1, the General Fund is presented on the modified accrual basis of accounting, and the Library as a whole (which consists of just its General Fund) is also presented on the full accrual basis. The following is a reconciliation of fund balance on the modified accrual basis of accounting to net assets presented on the full accrual basis:

Total Fund Balance - Modified Accrual Basis	\$ 1,154,950
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Amounts reported in the statement of net assets are different because:

Capital assets are not financial resources, and are not reported in the funds	<u>2,837,333</u>
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Total Net Assets - Full Accrual Basis	<u>\$ 3,992,283</u>
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Baldwin Public Library

Notes to Financial Statements June 30, 2003

Note 2 - Note 2 - Reconciliation of Government-wide and Fund Financial Statements (Continued)

The following is a reconciliation of the changes in fund balance on the modified accrual basis to the change in net assets on the full accrual basis:

Net Change in Fund Balances - Modified Accrual Basis \$ (80,614)

Amounts reported in the statement of activities are different because:

Capital outlay is not an expense of the current period	790,517
Capital costs are allocated over their estimated useful lives as depreciation	(652,265)
The disposal of capital assets are reported as a charge to expenses	<u>(14,897)</u>

Change in Net Assets of Governmental Activities \$ 42,741

Note 3 - Cash and Investments

The Library's cash and investments at June 30, 2003 consist of the following:

	General Fund	Fiduciary Fund	Total
Bank deposits	\$ -	\$ 86,239	\$ 86,239
Investment in securities, bank investment pools, and mutual funds	-	619,932	619,932
Petty cash and cash on hand	450	-	450
Deposit with City of Birmingham Treasurer	<u>1,328,278</u>	<u>-</u>	<u>1,328,278</u>
Total	<u><u>\$ 1,328,728</u></u>	<u><u>\$ 706,171</u></u>	<u><u>\$ 2,034,899</u></u>

Deposits

The above bank deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$87,803, all of which was covered by federal depository insurance.

Baldwin Public Library

Notes to Financial Statements June 30, 2003

Note 3 - Cash and Investments (Continued)

Investments

The Library is authorized by Michigan Public Act 20 of 1943 (as amended) to invest surplus monies in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers' acceptances and mutual funds, and investment pools that are composed of authorized investment vehicles. In addition, the Trust Fund holds investments donated to it by private donors.

The Baldwin Public Library Trust, in accordance with MCL §129.91 et.seq. and MCL §451.1201 et.seq., has adopted an investment policy to establish certain eligible investments and other requirements for endowment funds of a public corporation not otherwise subject to a Public Act of Michigan. Please refer to the policy for the investments allowed. The Trust's investments at June 30, 2003 consisted of the following:

U.S. government securities	\$ 159,211
Bank fund investment pool	4,025
Mutual funds	<u>456,696</u>
Total investments	<u>\$ 619,932</u>

Note 4 - Capital Assets

Capital asset activity of the Library's governmental activities was as follows:

	Balance July 1, 2002	Additions	Disposals and Adjustments	Balance June 30, 2003
Depreciable capital assets:				
Furniture and fixtures	\$ 361,963	\$ 155,377	\$ 60,290	\$ 457,050
Equipment	561,155	75,421	6,114	630,462
Building improvements	381,474	197,665	23,337	555,802
Books, periodicals, etc	<u>6,929,599</u>	<u>362,054</u>	<u>114,754</u>	<u>7,176,899</u>
Subtotal	8,234,191	790,517	204,495	8,820,213
Less accumulated depreciation	<u>(5,615,713)</u>	<u>(652,265)</u>	<u>(189,598)</u>	<u>(6,078,380)</u>
Subtotal	2,618,478	138,252	14,897	2,741,833
Fine arts - Not subject to depreciation because they are inexhaustible	<u>95,500</u>	<u>-</u>	<u>-</u>	<u>95,500</u>
Net capital assets	<u>\$ 2,713,978</u>	<u>\$ 138,252</u>	<u>\$ 14,897</u>	<u>\$ 2,837,333</u>

Note 4 - Capital Assets (Continued)

Capital assets, including library books, are recorded at cost. Depreciation expense was \$652,265 for the year ended June 30, 2003.

Note 5 - Budget Information

The annual budget is prepared by the director and adopted by the Library Board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2003 has not been calculated. The budget has been prepared in accordance with generally accepted accounting principles.

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the budget as adopted by the Library Board is included in the basic financial statements.

There was one significant budget overrun in the current year. The category of professional and contractual expenditures was budgeted for \$213,375, actual expenditures were \$298,699 resulting in an \$85,324 unfavorable variance.

Note 6 - Risk Management

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Library participates with the City in the Michigan Municipal League program for claims relating to workers' compensation, general liability, and property loss and participates in the City of Birmingham's self-insurance program for employee health and dental claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Through the City, the Library estimates the liability for general liability and employee health and dental claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are recorded in the City's Risk Management Internal Service Fund. Changes in the estimated liability for the City for the past two fiscal years are presented in the City's June 30, 2003 annual financial report.

Note 7 - Pension Plan

Plan Description - The Library participates in the City of Birmingham Employees' Retirement System (the "System"), a single-employer defined benefit pension plan that is administered by the City of Birmingham Employees' Retirement System Pension Board; this plan covers all full-time employees of the City and Library. The System provides retirement, disability, and death benefits to plan members and their beneficiaries. The plan issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the System at the City of Birmingham, 151 Martin, P.O. Box 3001, Birmingham, Michigan 48009.

Funding Policy - The obligation to contribute to and maintain the System for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the Library employees of 3 percent to 5 percent of their covered salary. The funding policy provides for periodic employer contributions at actuarially determined rates. Only employee contributions were required for the year ended June 30, 2003.

Annual Pension Cost - The annual required contribution was determined as part of an actuarial valuation at June 30, 2002, using the entry age actual cost method. Significant actuarial assumptions used include (a) a 7 percent investment rate of return, (b) projected salary increases of 4 percent per year, (c) additional projected salary increases ranging from 0.0 percent to 3.8 percent per year depending on age and seniority/merit, and (d) no cost of living adjustments. Both (a) and (b) include an inflation component of 4 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The full funding credit is being amortized as a level percentage of payroll over a period not less than 15 years. Six-year historical trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's June 30, 2003 annual financial report. There have been no required employer contributions to the plan for the last ten years.

Note 8 - Postemployment Benefits

The Library provides health care benefits to all full-time employees who retire at age 60 with 15 or more years of full-time service in accordance with Library Board resolution. Currently, 16 retirees are eligible. The Library includes pre-Medicare retirees in its insured health care plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Through the City, the Library estimates the liability for postemployment benefits that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are recorded in the City's Retiree Health Care Fund. The estimated liability for the City for the fiscal year is presented in the City's June 30, 2003 annual financial report.